

Message Text

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UNCLAS SECTION 01 OF 02 TAIPEI 04705

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SUBJECT: CONTINUED LABOR SHORTAGE IN TAIWAN

SUMMARY: THE RAPID GROWTH OF EXPORTS, PLUS FEMALE WORKERS' PREFERENCE FOR SERVICES SECTOR JOBS, HAVE CONTRIBUTED TO A FURTHER TIGHTENING IN THE AVAILABLE LABOR SUPPLY. SOME FIRMS HAVE HAD TO TURN AWAY ORDERS, AND MOST HAVE GRANTED OR SOON PLAN TO GRANT WAGE INCREASES. TO COPE WITH THIS SITUATION, SOME FIRMS ARE INCREASING MECHANIZATION AND BUILDING SATELLITE FACTORIES IN RURAL AREAS. THE LONG TERM EFFECT WILL BE TO HASTEN THE TRANSITION OF THE TAIWAN ECONOMY TOWARD GREATER EMPHASIS ON CAPITAL AND TECHNOLOGY INTENSIVE INDUSTRY.
END SUMMARY

1. AS AN ECONOMY BEGINS TO OVERHEAT, A LABOR SHORTAGE OFTEN DEVELOPS. THIS PROBLEM IS CURRENTLY FACING TAIWAN. ACCORDING TO A COUNCIL FOR ECONOMIC PLANNING AND DEVELOPMENT (CEPD) SURVEY, LABOR DEMAND IN MARCH 1978 WAS THREE TIMES LABOR SUPPLY. DEMAND WAS GREATEST FOR JUNIOR-HIGH GRADUATE UNSKILLED OR SEMI-SKILLED WORKERS. ANOTHER SURVEY INDICATED THAT INDUSTRY PRESENTLY REQUIRES 70,000 JUNIOR-HIGH SCHOOL GRADUATES, BUT OF THE 330,000 GRADUATES THIS SUMMER, ONLY AN ESTIMATED ONE-THIRD ARE EXPECTED PERMANENTLY TO ENTER THE LABOR FORCE. OF THESE,
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MANY PREFER TO WORK IN THE SERVICES SECTOR. AS A RESULT OF THIS SITUATION, AVERAGE MANUFACTURING WAGES HAVE CLIMBED BY 18 PERCENT COMPARED WITH MARCH 1977, ACCORDING TO CEPD STATISTICS.

2. ALTHOUGH THE EXPORT-LED 20 PERCENT RISE IN INDUSTRIAL PRODUCTION COMPARED WITH A YEAR EARLIER IS THE MAJOR

CAUSE OF THE LABOR SHORTAGE THE SITUATION IS, IN FACT, JIOT NEW. THE LABOR MARKET, ESPECIALLY FOR FEMALE PRODUCTION WORKERS, HAS BEEN COMPARATIVELY TIGHT EVER SINCE THE ECONOMY BEGAN RECOVERING FROM THE WORST EFFECTS OF THE 1974-75 RECESSION. FURTHER, CYCLICAL FACTORS ALSO PLAY A ROLE IN EXPLAINING THE PRESENT SHORTAGE, WITH THE SUPPLY OF YOUNGER WORKERS TIGHT JUST BEFORE SCHOOL CLOSES FOR THE SUMMER AND AFTER IT REOPENS, AND EASING IN THE SUMMER AND WINTER PERIODS.

3. OTHER LONGER TERM FACTORS ALSO PLAY A KEY ROLE IN INFLUENCING THE PRESENT LABOR SUPPLY SITUATION. ONE IS THE RELATIVELY SLOW GROWTH IN THE LABOR POOL AVAILABLE TO THE MANUFACTURING SECTOR. FOR EXAMPLE, THE WHOLE LABOR FORCE GREW BY 5 PERCENT IN THE TWO YEARS FROM 1975 TO 1977, RISING FROM 5.7 TO 6 MILLION PERSONS. LATELY, ACCORDING TO ONE ESTIMATE, TOTAL EMPLOYMENT IN THE MANUFACTURING SECTOR IS SAID TO HAVE GROWN BY 90,000 WORKERS PER YEAR TO ACCOUNT FOR ABOUT 38 PERCENT OF THE WORK FORCE. BUT THE SERVICES SECTOR HAS GROWN EVEN MORE RAPIDLY BY AN ESTIMATED AVERAGE OF 100,000 PERSONS PER YEAR TO ACCOUNT FOR ABOUT 35 PERCENT OF THE LABOR FORCE. WHILE THE NUMBER EMPLOYED IN THE AGRICULTURAL SECTOR HAS DROPPED BY AN ESTIMATED AVERAGE OF 10,000 PER YEAR, GOVERNMENT MEASURES TO PROMOTE AGRICULTURAL DEVELOPMENT AND MECHANIZATION HAVE RAISED REAL RURAL INCOME, NARROWED THE URBAN-RURAL INCOME GAP AND THUS UNCLASSIFIED

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SLOWED DOWN THE OUTFLOW OF LABOR TO THE CITIES.

4. A POTENTIAL FACTOR FURTHER REDUCING THE LABOR SUPPLY IS A PROPOSED LABOR LAW REVISION, NOW UNDER CONSIDERATION BY THE MINISTRY OF INTERIOR AND THE CEPD, WHICH WOULD INCREASE THE MINIMUM WORKING AGE FROM 14 TO 15 YEARS. LABOR UNIONS, THOUGH EXTANT, HAVE NOT BEEN INVOLVED IN QUESTIONS OF WAGES OR LABOR SUPPLY, AND ARE FORBIDDEN TO ENGAGE IN STRIKES. THUS, THEY PLAY NO ROLE EITHER CREATING OR AMELIORATING THE LABOR SHORTAGE.

5. MOREOVER, PROSPERITY IS BRINGING CHANGING ATTITUDES TOWARD FACTORY WORK. GENERALLY, FEMALE WORKERS, WHO ARE IN GREATEST DEMAND, PREFER THE MORE COMFORTABLE WORKING CONDITIONS IN THE SERVICE SECTOR TO THE HIGHER PAY AND SHORTER WORKING HOURS IN THE MANUFACTURING SECTOR. NOW SOME WOMEN ARE CONSUMING MORE LEISURE, AND REMAINING AT HOME RATHER THAN WORKING IN FACTORIES.

6. DEMAND FOR RELATIVELY UNSKILLED LABOR CONTINUES TO RISE APACE WITH TAIWAN'S CURRENT STAGE OF INDUSTRIALIZATION. SINCE 1973, WHEN FEMALE LABOR WAS RELATIVELY ABUNDANT,

NEW LABOR INTENSIVE INDUSTRIES HAVE JOINED THE
"TRADITIONAL" TEXTILE AND ELECTRONICS INDUSTRIES, WITH
THE FOOTWEAR INDUSTRY THE PRIME EXAMPLE. THE EXPANDING
TOURIST INDUSTRY AND THE PROSPERING DOMESTIC ECONOMY
HAVE SUPPORTED RAPID GROWTH OF THE SERVICES SECTOR.
FINALLY, LABOR-INTENSIVE PROCESSING INDUSTRIES OFTEN
CAN BE HIGHLY RESPONSIVE TO SUDDEN SHIFTS IN CONSUMER
DEMAND. THUS, IN PERIODS WHERE FOREIGN DEMAND IS STRONG,
SUCH AS THE PRESENT TIME, THE NEED FOR WORKERS OFTEN
EXCEEDS THE SUPPLY. IN TAIWAN, OFTEN THE MOST SEVERE

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SHORT-TERM COMPETITION FOR WORKERS AT SUCH TIMES COMES
FROM SMALL UNDER-CAPITALIZED FACTORIES WHICH TEND TO
OPERATE IN A RATHER SPECULATIVE MANNER DEPENDING ON
FOREIGN ORDERS.

7. A SURVEY OF AMERICAN INVESTED ELECTRONICS, TEXTILE,
AND OTHER FACTORIES IN TAIWAN REVEALS AN INCONSISTENT
PATTERN. SOME FIRMS HAVE BEEN FORCED TO TURN AWAY
BUSINESS FOR LACK OF WORKERS, WHILE OTHERS, LOCATED IN
THE MOST SEVERELY IMPACTED AREA, REPORT LITTLE DIFFICULTY
MAINTAINING THEIR WORK FORCES. REPORTS OF SHORTAGES
CENTER MAINLY IN THE TAIPEI-TAOYUAN-CHUNGLI INDUSTRIAL
CORRIDOR, BUT ALSO EMANATE FROM TAICHUNG AND KAOHSIUNG
AS WELL. THE CONSENSUS AMONG AMERICAN MANAGERS IS THAT
RAISING WAGES EXCESSIVELY WILL NOT CHANGE THE BASIC LABOR
PARTICIPATION RATE BUT WILL MERELY MOVE THE EXISTING
WORKERS AROUND FROM FIRM TO FIRM. TO RETAIN THEIR PRESENT
WORK FORCE, MOST FIRMS, BOTH AMERICAN AND CHINESE, ARE
GRANTING THEIR FEMALE WORKERS "DEFENSIVE" WAGE INCREASES
AVERAGING AROUND 10 PERCENT. OTHER SHORT TERM RESPONSES
BY AMERICAN FIRMS INCLUDE HIRING OF BOYS (IN GREATER SUPPLY)

AND SETTING UP NIGHT SHIFTS. THESE MEASURES AIM TO TAP
HITHERTO RELATIVELY UNUTILIZED POCKETS OF LABOR, BUT BOTH
PRESENT PROBLEMS FOR THE TRADITIONAL CHINESE MANAGEMENT
STYLE. AND ARE UNLIKELY TO BE WIDELY ADOPTED BY CHINESE
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FIRMS. ALTERNATIVE SHORT-TERM RESPONSES ARE FEW, MOST
LARGE FIRMS SEVERAL YEARS AGO ADOPTED MEASURES SUCH AS
FREE BUS TRANSPORTATION, SUBSIDIZED DORMITORIES, AND
ACTIVE EMPLOYMENT RECRUITING IN RURAL AREAS.

8. LONG TERM RESPONSES TO THE LABOR SHORTAGE FALL INTO
TWO CATEGORIES. THE FIRST IS TO INCREASE THE DEGREE OF
MECHANIZATION (BUT NOT AUTOMATION) TO MAINTAIN WORKER
PRODUCTIVITY. FOR EXAMPLE, ONE LARGE AMERICAN INVESTED
ELECTRONICS FIRM BY INCREASING MECHANIZATION, HAS SEEN
PRODUCTIVITY INCREASE FOUR FOLD BETWEEN 1971 AND 1978
WHILE WAGES ROSE BY 250 PERCENT AND THE NUMBER OF WORKERS
DECLINED BY 25 PERCENT. CONSEQUENTLY, AVERAGE PRODUCTION
COST PER UNIT OF OUTPUT HAS REMAINED CONSTANT OR DECLINED.
SMALL FINANCIALLY WEAK CHINESE FIRMS WITH OBSOLETE HIGHLY
LABOR-INTENSIVE EQUIPMENT WILL BE INCREASINGLY HARD
PRESSED TO COMPETE WITH LARGER DOMESTIC FIRMS AND NEW
LOWER COST INTERNATIONAL PRODUCERS SUCH AS KOREA.

9. BESIDES INCREASING PRODUCTIVITY, FIRMS HERE ARE COPING
WITH THE DISLOCATION OF LABOR DISTRIBUTION BY BUILDING
SATELLITE FACTORIES IN RURAL AREAS. AMONG AMERICAN
INVESTED FIRMS, TRW AND RCA HAVE ALREADY DONE THIS, AS
HAS TAIWAN'S FAR EASTERN TEXTILES. THE COMPLETION OF THE
NORTH-SOUTH FREEWAY IS EXPECTED TO GIVE ADDED IMPETUS
TO THIS TREND. THE RURAL FACTORIES GENERALLY ASSEMBLE
SIMPLER COMPONENTS TO SERVE MAIN FACTORIES IN THE TAIPEI
OR KAOHSIUNG AREA.

10. THOUGH THE ACUTENESS OF THE LABOR SHORTAGE WAS A
FACTOR IN THE RECENT MOVE TO UNPEG THE NT DOLLAR FROM THE
US DOLLAR, OVERALL, THE PRESENT SITUATION IS BASICALLY
AN INTENSIFICATION OF A EXISTING TREND. THE NET EFFECT
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OF THE LABOR SHORTAGE WILL LIKELY BE TO HASTEN THE
TRANSITION FROM SMALL SCALE HIGHLY LABOR-INTENSIVE
MANUFACTURING PROCESSES TO THOSE PROCESSES WHICH ARE
STILL RELATIVELY LABOR INTENSIVE COMPARED TO THE
DEVELOPED COUNTRIES, BUT WHICH INVOLVE LARGER SCALE

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